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C O N F I D E N T I A L MOSCOW 002462

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STATE FOR EEB BYERLY AND COLEMAN
EUR/RUS FOR WARLICK AND HOLMAN
USDOT FOR STREET AND HATLEY
USDOC FOR 4321/ITA/MAC/EUR/RISA BROUGHER AND BEADLE
USDOC FOR 3004/CS/ADVOCACY/BLOOM

E.O. 12958: DECL: 05/21/2017
TAGS: [EAIR](#) [ECON](#) [PREL](#) [RS](#)
SUBJECT: RUSSIA BILATERAL CIVAIR NEGOTIATIONS: FRUITFUL
TALKS BUT NO DEAL YET

REF: MOSCOW 02189

Classified By: Econ M/C Quanrud for reasons 1.4 B and D.

11. (C) The U.S. and Russian civil aviation delegations had productive discussions May 16-17 on updates to the Annexes of our 1994 Bilateral Air Transport Agreement, but no deal was reached. On overflights, the GOR continues to bar any use of the Trans-Siberian routes without a commercial agreement with Aeroflot but offered to increase crosspolar, Indian subcontinent, and Trans-East frequencies. On codesharing, the GOR was not ready to allow third-country codesharing from Europe, particularly with German-owned carriers, but said it would study the issue. On rights for Russian carriers, the GOR asked for limited Seventh Freedom cargo rights for routes between Asia, the United States, and points beyond. The U.S. lead negotiator, Bureau of Economic, Energy, and Business Affairs Deputy Assistant Secretary John Byerly, and the Russian lead negotiator, Director General Gennady V. Loshchenov of the Ministry of Transport, Department of State Policy in Civil Aviation, agreed to meet again September 4-6 in Washington.

OVERFLIGHTS: NO TRANS-SIBERIAN,
BUT INCREASES ON CROSS-POLAR,
INDIAN, AND TRANS-EAST ROUTES

12. (C) On Trans-Siberian routes, Byerly requested traffic and tech stops in Novosibirsk and Krasnoyarsk and also raised the issue of the Chinese requirement for planes using route "L888" to exit Chinese airspace at navigation point "Revki." Loshchenov was absolutely clear that he was not in a position to negotiate on any Trans-Siberian routes -- including use of the Revki crossing point -- without a corresponding commercial agreement between the airline concerned and Aeroflot for use of the route. A final deal between the GOR and Europe to phase out the payments to Aeroflot required by such agreements had not been vetted through the Russian inter-agency process in time for the Russian-EU Summit in Samara May 17-18. The deal, however, is expected to involve a phasing out of such payments for existing flights by 2014, coupled with an understanding that there would be no charges for new flights. (Comment: Loshchenov clearly did not want to appear to be offering a free-ride to the Americans when the Europeans negotiated hard for a seven-year phase out. He said, "I'd have every European carrier crying foul at my door." End comment.)

13. (C) The GOR would not allow any stop in Krasnoyarsk (principal hub of AirBridgeCargo, formerly Volga-Dnepr), but Loshchenov said it would consider a technical stop in Novosibirsk, provided the U.S. carrier entered into a commercial agreement with Aeroflot. Likewise, all traffic including flight navigation point "Revki" and points farther north would require a commercial deal. Loshchenov hinted that the amounts that U.S. carriers would be required to pay would be modest. The U.S. delegation responded that mandatory commercial agreements were a "bad policy" that the United States and its carriers had consistently opposed. To Loshchenov's apparent surprise, the U.S. indicated its intention to drop the issue of Trans-Siberian routes, pending the outcome of the EU-Russia deal, rather than consider any form of pay-off to Aeroflot.

14. (C) On other overflights, Loshchenov offered increases as part of an overall package with some room for bargaining. First, he offered 83 East-bound, 83 West-bound cross-polar frequencies; the USG requested 84-84 now, 119-119 in March 2008, and 126-126 in Winter 2008. Next, Loshchenov called service to India "sensitive" to Russian companies because of the connections they offer to India, through Moscow, for North American passengers and therefore offered 41-41; U.S. carriers are effectively using that now, and the U.S. side thus requested an increase to 52-52 in March 2008. Finally, Loshchenov offered 300-500 for the Trans-East route as part of a larger package, which was acceptable to the USG.

RUSSIA NOT READY FOR THIRD-COUNTRY CODESHARES

15. (SBU) Though the GOR would like to see Aeroflot's applications for bilateral codesharing with Northwest,

Continental, and Delta approved, it was still reluctant to offer third-country codesharing (even on a limited basis) to U.S. carriers wanting to serve Russia in cooperation with a European partner. Loshchenov said that the whole Russian industry came to a consensus that third-country codesharing would eat too much into their European market share now. Loshchenov specifically said he was barred by bilateral protocol from allowing any third-country codesharing with a German-owned carrier. (Comment: This obviously includes United's bid to codeshare with Lufthansa but could also bar any cooperative marketing arrangements with Swiss Air, as it is now Lufthansa-owned. End comment.) Loshchenov did say, however, that he would study the protocol with Germany, consult with Russian industry, and consider, before the next round, the possibility of limited third-country codesharing (perhaps one flight to Moscow per day for each of the six principal U.S. carriers).

SEVENTH FREEDOM CARGO RIGHTS FOR RUSSIAN CARRIERS

16. (C) Besides approval of the Aeroflot codeshare applications, the GOR had only one major request. It wanted limited Seventh Freedom cargo rights for routes between Asia and Alaska, continuing on to Chicago (and perhaps another point in the lower-48 states), and beyond, without servicing Russia. Andrey Shumilin, the representative from AirBridgeCargo (formerly Volga-Dnepr), told us privately that his company is interested in carrying cargo between Asia and the United States. With substantial loads, such flights would refuel in Krasnoyarsk. He said, however, that AirBridgeCargo would like the option to forgo the stop in Krasnoyarsk during the low season (when it has very low payloads) because the extra landing fees in Krasnoyarsk would not make the trip profitable. Shumilin stressed that this right would be for occasional use only, perhaps for 10 percent of a total of no more than 300 flights per year (i.e., perhaps 30 flights would forgo the stop in Krasnoyarsk and operate on a Seventh Freedom basis). Byerly replied to both Loshchenov and Shumilin that the U.S. has never granted Seventh Freedom all-cargo rights outside of an Open Skies

agreement, but that the U.S. delegation would nevertheless study the matter before the September round.

OTHER RUSSIAN PROPOSALS TO THE ANNEXES

¶17. (SBU) During the opening session of the negotiations, the GOR proposed modifications to the Annexes, particularly Annex I, Section 6 and Annex II, Sections 1-3, tabling specific texts. (Comment: Interestingly enough, the GOR never raised the drafts again in either the plenary sessions or the chairmen's meetings. It is therefore not entirely clear how important these changes were to the Russian side. End Comment.)

¶18. (U) The proposed changes to Annex I, Section 6 address intermodal cargo and, according to Loshchenov, were requested by Russian Customs. The changes to Annex II, Section 1 would remove the requirement that charter carriers be designated by diplomatic note. In Section 2, Paragraph C, the Russians requested we strike the three listed reasons for a denial of an application: reciprocity, safety, and national security. Finally, the GOR proposed deleting Annex II, Section 3 entirely, which would mean that humanitarian charters would count against the numerical limitation on charter flights.

OTHER DOING BUSINESS ITEMS

AIR NAVIGATION SERVICE FEES AND STATE FLIGHTS:

¶19. (C) The Federal Air Navigation Service presented a chart to Byerly of all the U.S. carriers (and other entities) that allegedly owe money for air navigation services. Natalia Kirillova explained that much of the money owed comes from a recent change of their operational dollar-ruble exchange rate. Kirillova also stated that the U.S. Embassy owed for state flights to and over Russia but acknowledged that this topic would be discussed in Washington during upcoming state flights negotiations. (Comment: Kirillova, her boss Mikhail Parnev, Alexander Zakharov from the Ministry of Foreign

Affairs, and Elena Mikhayeva from the Ministry of Transport all raised the issue of state flights on the margins of the talks. End comment.)

FAA ISSUES:

¶10. (SBU) The Federal Air Navigation Authority (FANA) also brought up concerns it had about air traffic control procedures on crosspolar routes and possible alternate landing destinations in the United States for Russian aircraft flying to Canada. The U.S. Federal Aviation Administration (FAA) is aware of these issues and is working to get an answer for FANA.

COMMENT

¶11. (C) Perhaps Loshchenov said it best in his closing remarks, "There is no need to panic. Even though we don't agree, we still have very good relations." Though we didn't come to a solution this round, talks were open, honest, and friendly. Both Byerly and Loshchenov acknowledged the need to consult in their capitals with the goal of finding a solution in the September talks.

LIST OF U.S. PARTICIPANTS

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- Steven Hatley - Senior Negotiator, Office of International Aviation, U.S. Department of Transportation
- Laura Trejo - Senior Attorney, Office of International Law, U.S. Department of Transportation
- Brian Staurseth - FAA Representative, U.S. Embassy Moscow
- Kristen Grauer - Civil Aviation Officer, U.S. Embassy Moscow
- Sametta Barnett, Director of Government Affairs, Delta Airlines
- Cecilia Bethke - Managing Director of International Affairs, Air Transport Association
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- Jeffery Walker Morgan - Director of International and Regulatory Affairs, Northwest Airlines
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- Igor Regush) Aeroflot

- Kamil Feizafmanov - Aeroflot Cargo

- Martya Goryashko - Aeroflot Cargo

- Andrey A. Shumilin - AirBridgeCargo

- Yuri A. Malishev - AirBridgeCargo

- Dennis Ilyin - AirBridgeCargo

- Aleksei Leonov - AirBridgeCargo

- Natalia V. Nazarova - AirBridge Cargo

- Natalia Pechinkina - Transaero

- Denis Savchenko - Transaero

- Glenn Wicks - The Wicks Group

- Katya Grimes - The Wicks Group

- Sergey Teselkin - Polet

- Denis Zuzanov - Polet

- Yuri Lavrentiev - TESIS

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